

Statement of Senator Tim Johnson
Senate Banking Committee
"Strengthening our Economy: Foreclosure Prevention and Neighborhood Preservation"
January 31, 2008

Chairman Dodd, thank you for holding today's hearing on foreclosure prevention and other possible options to address our economy's weaknesses from the subprime mortgages crisis. I think we all know how timely and important this hearing is today.

I look forward to testimony of today's witnesses, and hope that it provides a closer look at programs currently being used to address the foreclosure crisis like HOPE NOW, and other ideas like a Federal Homeownership Preservation Corporation that could provide more relief. We are in urgent need of good advice.

Earlier this week, new home sales posted the biggest drop on record, and that is expected to continue this year. Median home prices are down 10% from last year, and the nation's home builders continue to report losses. In my state of South Dakota, total homes sales fell. None of these reports bode well for the economy.

I continue to hear from South Dakotans impacted by the subprime mortgage crisis. Those who have Adjustable Rate Mortgages (ARMs) were aware when they financed their homes that their payments would increase, but were not prepared for the drastic increase when it came. It doesn't help that Americans face high health care costs and prescription drug prices, stagnant wages, unemployment, elevated energy prices and dwindling savings.

I also have great concerns of the impact of the subprime mortgage crisis outside the subprime market. I am concerned about the record write-downs of many of our nation's largest banks, and we now see reports that homes financed by conventional mortgages have also dropped. If the availability of financing dries up, decreases in interest rates may not serve their intended purpose. It is yet to be seen the full effect of the subprime crisis on small lending institutions and the availability of credit to their customers.

As Congress considers an economic stimulus package, we must address the weakening of the housing market. When the Department of the Treasury estimates that an additional 1.8 million loans will reset during 2008 and

2009, we need to bring all available options to the table to prevent further foreclosures. The HOPE NOW initiative is making strides, but the solution should also utilize the FHA loan program for individuals and expand options for banks to access liquidity in the secondary market. We must also allow Freddie Mac and Fannie Mae to be part of the solution in a safe, secure and regulated manner.

It is my hope that today's hearing will provide Banking Committee members with a better idea of additional programs and legislative items that could be beneficial to those facing foreclosure and provide a stimulus to the economy as a whole.